

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The management of the County of Fauquier, Virginia presents the following discussion and analysis as an overview of the County of Fauquier's financial activities for the fiscal year ending June 30, 2005. We encourage readers to read this discussion and analysis in conjunction with the transmittal letter in the Introductory Section of this report, and the County's financial statements which follow this discussion and analysis.

### **FISCAL YEAR 2005 FINANCIAL HIGHLIGHTS**

- At the close of the fiscal year, the net assets of the County, excluding its component unit, Schools, totaled \$117.3 million. Of this amount, \$30.6 million is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors (Exhibit 1).
- For the fiscal year, general and program revenues of the County's governmental and business type activities totaled \$136.5 million and expenses totaled \$126.3 million. As a result, the County's total net assets increased by \$10.2 million, or 9.5%, during fiscal year 2005 (Exhibit 2).
- The component unit, Schools, revenues totaled \$104.7 million and expenses totaled \$102.2 million. Schools net assets increased by \$2.5 million, or 5.9%, during fiscal year 2005 (Exhibit 2).
- As of June 30, 2005, the County governmental funds reported combined fund balances of \$55.0 million, a decrease of \$7.1 million in comparison with the prior year. The decrease resulted primarily from the use of bond proceeds received in previous years for capital projects offset by \$4.0 million from proceeds from issuance of debt and premiums on issuance of debt. Approximately 27.3% of the combined fund balances, or \$15.0 million, is undesignated and available to meet the County's current and future needs (Exhibits 3 & 5).
- The General Fund reported a fund balance of \$19.2 million, a decrease of \$3.4 from June 30, 2004 (Exhibit 5).
- For the County's business-type activities, program revenue totaled \$13.1 million and expenses totaled \$8.1 million. As a result, net assets increased by \$5.0 million, or 39.5%. The primary contributor to this increase in net assets was from a capital grant for the Airport in the amount of \$4.8 million. (Exhibit 2)

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This Comprehensive Annual Financial Report (CAFR) consists of four sections: introductory, financial, statistical, and compliance.

- The introductory section includes the transmittal letter, a copy of the 2004 Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association, the County's organizational chart, and list of principal officials.
- The financial section includes the Independent Auditors' Report, management's discussion and analysis (this section), the basic financial statements, required supplemental information, and combining and individual fund statements and schedules.
- The statistical section includes selected financial and demographic data related to the County, generally presented on a multi-year basis.

- The compliance section is required under the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget circular A-133, Audits of State, Local Governments and Non-profit Organizations; and includes the auditors' reports on compliance and internal control.

## **Financial Section Overview**

This management discussion and analysis, which is preceded by the Independent Auditors' Report, is intended to serve as an introduction to the Financial Section of the CAFR. It is followed by three additional parts – the basic financial statements, required supplementary information, and the combining and individual fund statements and schedule.

The Independent Auditors' Report reflects the results of the external audit. The auditor expresses an opinion on whether the financial statements have been presented in conformity with accounting principles generally accepted in the United States (GAAP).

The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements and the fund financial statements present different views of the County. These two types of statements are discussed in more detail in the following sections.

The required supplementary information includes this discussion and analysis, the Virginia Retirement System Schedule of Funding Progress and the Fire & Rescue Pension Trust Length of Service Awards Program (Exhibit 13).

Finally, the combining and individual fund statements and schedules are included, which present combining statements for non-major governmental funds, internal service funds, fiduciary funds, and the component unit as well as other supporting schedules.

## **Government-wide Financial Statements**

The government-wide financial statements (Exhibits 1 and 2) report information about the County as a whole using accounting methods similar to those found in the private sector. They also report the County's net assets and how they have changed during the fiscal year. These statements provide both short-term and long-term information about the County's overall financial status.

The Statement of Net Assets (Exhibit 1) presents information on all of the County's assets and liabilities, including governmental activities, business-type activities, and School Board activities. Net assets is the difference between assets and liabilities, which provides a measure of the County's financial health, or financial condition. Over time, increases or decreases in the net assets may serve as an indicator of whether the County's financial condition is improving or deteriorating. Other non-financial factors will also need to be considered, such as changes in the County's property tax base and the condition of the County's facilities.

The Statement of Activities (Exhibit 2) presents information using the accrual basis of accounting, and shows how the County's net assets changed during the fiscal year. All of the current year's revenues and expenses are shown in this statement, regardless of when cash is received or paid. The Statement of Activities presents expenses before revenue to emphasize that the government's revenue is generated for the express purpose of providing services.

In the government-wide financial statements, the County's activities are divided into three categories:

- Governmental activities: Most of the County's basic services are reported here, including general government; judicial administration; public safety; public works; health and welfare; education, parks, recreation and cultural; and community development. These activities are financed primarily by property

taxes, other local taxes, and Federal and State grants. Governmental funds and internal service funds are included in the governmental activities.

- Business-type activities: The County charges fees to users to cover all, or a significant portion, of the costs associated with the provision of certain services. These business-type activities of Fauquier County are intended to be self-supporting and include Landfill & Recycling and Airport.
- Component unit: The County has one component unit, the Fauquier County Public Schools (School Board), which is included in this annual financial report. Although legally separate, this discretely presented component unit is important because the County is financially accountable for it. A primary government is accountable for an organization if the primary government is able to impose its will on the organization or the organization is capable of imposing specific financial burdens on the primary government. The County approves debt issuances for the School Board and provides significant funding for its operation. Additional information on the component unit can be found in Note 1 of the Notes to Financial Statements section of this report.

### **Fund Financial Statements**

These statements focus on individual parts of the County's government, reporting the County's operations in more detail than the government-wide statements. Funds are used to ensure compliance with finance-related legal requirements and are used to keep track of specific sources of revenue and expenses for particular purposes. The County has three kinds of funds:

- Governmental Funds – Most of the County's basic services are included in governmental funds, which focus on (1) the in flows and out flows of cash and other financial assets that can be readily converted to cash, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The County has two major funds, the General Fund and the Capital Projects Fund. The General Fund is the main operating account of the County and therefore, the largest of the governmental funds. The Capital Projects Fund is used to account for major capital projects, primarily construction related. It provides control over resources that have been segregated for specific capital projects. All other governmental funds, which include special revenue funds, are collectively referred to as non-major governmental funds.
- Proprietary Funds – The County's proprietary funds consist of two enterprise funds and two internal service funds, which operate in a manner similar to private business enterprises in which costs are recovered primarily through user charges or fees. Proprietary fund financial statements provide both short-term and long-term financial information. The County's enterprise funds include the Landfill & Recycling Fund and the Airport Fund. The County's internal service funds include the Fleet Maintenance Fund and the Health Insurance Fund.
- Fiduciary Funds – Fiduciary funds are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide statements because the funds are not available to support the County's programs. The County's fiduciary funds consist of a pension trust fund and agency funds. The funds are used to account for monies received, held, and disbursed on behalf of certain retirees, developers, the Commonwealth of Virginia, and certain other agencies and governments.

## **FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE**

### **Statement of Net Assets:**

Table 1 summarizes the Statement of Net Assets (Exhibit 1 in the Financial Section of the CAFR) for the primary government and component unit as of June 30, 2005 and 2004.

<b>Table 1</b>									
<b>County of Fauquier Summary of Net Assets (\$ in millions)</b>									
<b>Primary Government</b>								<b>Component Unit</b>	
<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>		<b>Schools</b>			
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Assets:</b>									
Current and other assets	\$ 78.6	\$ 84.3	\$ 5.4	\$ 3.3	\$ 84.0	\$ 87.6	\$ 11.0	\$ 10.7	
Capital assets (net)	99.1	88.4	22.5	17.1	121.6	105.5	47.8	45.1	
Total assets	177.7	172.7	27.9	20.4	205.6	193.1	58.8	55.8	
<b>Liabilities:</b>									
Other liabilities	13.9	20.0	1.0	1.4	14.9	21.4	10.5	10.5	
Long-term liabilities	64.2	58.3	9.2	6.4	73.4	64.7	3.8	3.3	
Total liabilities	78.1	78.3	10.2	7.8	88.3	86.1	14.3	13.8	
<b>Net assets:</b>									
Invested in capital assets, net of related debt	47.3	28.4	20.6	14.9	67.9	43.3	47.8	45.1	
Restricted	18.8	25.5	-	-	18.8	25.5	-	-	
Unrestricted	33.5	40.5	(2.9)	(2.2)	30.6	38.3	(3.3)	(3.1)	
Total net assets	\$ 99.6	\$ 94.4	\$ 17.7	\$ 12.7	\$ 117.3	\$ 107.1	\$ 44.5	\$ 42.0	

The Commonwealth of Virginia requires that counties, as well as their financially dependent component units, be financed under a single taxing structure. This results in counties issuing debt to finance capital assets, such as public schools, for their component units. For the purpose of this financial statement, the debt and correlating asset of the Schools are recorded as an asset and long-term liability of the primary government. The primary government consists of governmental activities and business-type activities. GASB Statement No. 14, *The Financial Reporting Entity*, requires that the primary government and its component units, which make up the total reporting entity, be accounted for separately on the face of the basic financial statements.

In the case of the primary government, total assets exceeded total liabilities by \$117.3 million at June 30, 2005. The largest portion of net assets, \$67.9 million, represents the County's investment in capital assets (e.g., land, buildings, and equipment), less the depreciation and outstanding debt associated with the asset acquisition. An additional \$18.8 million of restricted assets related to \$16.3 of funds restricted for capital projects and \$2.5 million restricted for grants and special projects. The unrestricted net assets of the governmental activities totaled \$33.5 million. For the business-type activities, unrestricted net assets showed a deficit of \$2.9 million. This deficit does not mean that there are insufficient resources available to pay the bills; but that long-term commitments are greater than currently available resources. Specifically, the Landfill & Recycling Fund did not receive user fees sufficient to finance the non-current portion of long-term debt. For the component unit, Schools, unrestricted net assets showed a deficit of \$3.3 million. This deficit occurred because revenue collections were insufficient to cover the long-term liabilities associated with unused employee vacation and sick leave accruals. These long-term liabilities are intended to be financed in part with future resources.

## Statement of Activities

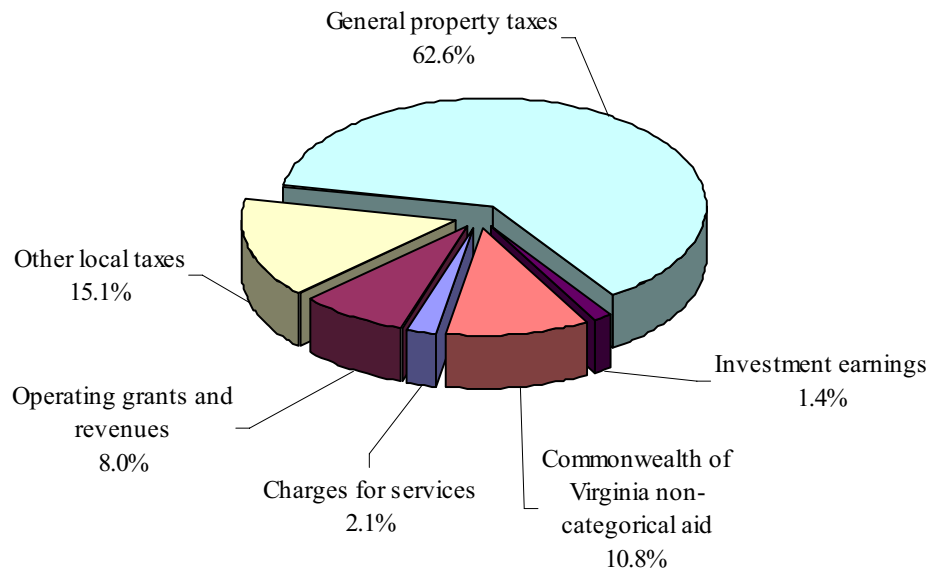
Table 2 summarizes the Statement of Activities (Exhibit 2 in the Financial Section of the CAFR) for the primary government and component unit.

<b>County of Fauquier</b> <b>Change in Net Assets</b> <b>(\$ in millions)</b>									
<b>Table 2</b>	<b>Primary Government</b>						<b>Component Unit</b>		
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>		<b>Schools</b>		
	2005	2004	2005	2004	2005	2004	2005	2004	
<b>Revenues</b>									
Program revenues:									
Charges for services	\$ 2.6	\$ 3.7	\$ 8.3	\$ 6.7	\$ 10.9	\$ 10.4	\$ 3.2	\$ 2.8	
Operating grants and contributions	9.9	9.6	-	-	9.9	9.6	4.5	3.8	
Capital grants	-	-	4.8	3.2	4.8	3.2	-	-	
General revenues:									
Real & personal property taxes	77.1	71.8	-	-	77.1	71.8	-	-	
Contribution from Primary government	-	-	-	-	-	-	65.3	58.8	
Other taxes	18.6	14.0	-	-	18.6	14.0	-	-	
Investment earnings	1.7	1.2	-	-	1.7	1.2	-	0.5	
Miscellaneous	0.2	0.5	-	-	0.2	0.5	-	-	
Commonwealth non-categorical aid	13.3	13.2	-	-	13.3	13.2	31.7	29.2	
Total revenues	123.4	114.0	13.1	9.9	136.5	123.9	104.7	95.1	
<b>Expenses</b>									
General government	8.3	8.1	-	-	8.3	8.1	-	-	
Judicial administration	2.6	2.6	-	-	2.6	2.6	-	-	
Public safety	16.0	13.8	-	-	16.0	13.8	-	-	
Public works	5.3	8.6	-	-	5.3	8.6	-	-	
Health & welfare	7.1	6.5	-	-	7.1	6.5	-	-	
Education	65.3	59.1	-	-	65.3	59.1	102.2	92.8	
Parks, recreation & cultural	4.0	4.1	-	-	4.0	4.1	-	-	
Community development	5.7	4.6	-	-	5.7	4.6	-	-	
Other	0.8	0.6	-	-	0.8	0.6	-	-	
Interest - long-term debt	3.1	2.8	-	-	3.1	2.8	-	-	
Airport	-	-	0.2	0.2	0.2	0.2	-	-	
Landfill & recycling	-	-	7.9	6.1	7.9	6.1	-	-	
Total expenses	118.2	110.8	8.1	6.3	126.3	117.1	102.2	92.8	
Changes in net assets	5.2	3.2	5.0	3.6	10.2	6.8	2.5	2.3	
Beginning net assets	94.4	91.2	12.7	9.1	107.1	100.3	42.0	39.7	
Ending net assets	\$ 99.6	\$ 94.4	\$ 17.7	\$ 12.7	\$ 117.3	\$ 107.1	\$ 44.5	\$ 42.0	

**Governmental Activities:** As reflected in Table 2, total governmental net assets increased by \$5.2 million compared to an increase of \$3.2 million in fiscal year 2004. The increased growth in net assets is attributed primarily to growth in property and other taxes of \$9.9 million or 11.5% offset by support given to several programs, primarily education, public safety and community development. Revenues from governmental activities (Table 2) totaled \$123.4 million, an increase of \$9.4 million over fiscal year 2004. Revenue increases occurred primarily in general property taxes of \$5.3 million or 7.4% and other taxes of \$4.6 million or 32.9%. In fiscal year 2005, \$12.5 million, or 10.1% of the total revenue, was generated from program revenues, primarily operating grants and contributions. General revenue such as Commonwealth of Virginia aid, miscellaneous revenue and investment earnings accounted for the remaining revenues.

The following chart provides a breakdown of revenue collections by source. Taxes comprise the largest source of these revenues, totaling \$95.7 million, or 77.7% of all governmental activities revenue. Of this amount, general property taxes account for \$77.1 million, or 62.6% of total revenue. In fiscal year 2005, the County was able to maintain the real and personal property tax rates at prior year levels.

**Governmental Activities – Revenues by Source  
For the Fiscal Year Ended June 30, 2005**



As shown in Table 2, the total expenses for governmental activities for this fiscal year were \$118.2 million, compared to \$110.8 million in fiscal year 2004. Table 2 and the following chart illustrate total expenses by function. Education continues to be the County's largest program and highest priority with the County's contribution totaling \$65.3 million, or 55.2% of total expenses. In addition, Schools incur indirect expenditures, which are reported in the governmental activities (General Fund). The County has consolidated the services provided by the departments of general services (maintenance of buildings and grounds), human resources, and finance. Approximately 75% of the costs of these consolidated functions are associated with educational activities. As shown in Exhibit 7 of the Financial Section of this report, these functions cost approximately \$5.9 million in fiscal year 2005. The portion allocated to education is approximately \$4.4 million. Typically, school systems bear these costs directly. However, with the consolidated departments in Fauquier County, the costs are shown in the General Fund. Recognizing these costs as a function of education increases the schools share of total expenses to approximately 59.0%. Public safety expenses, which total \$16.0 million (13.5%), represent the second largest expense category for governmental activities.

**Governmental Activities  
Functional Expenses  
For the Fiscal Year Ended June 30, 2005**

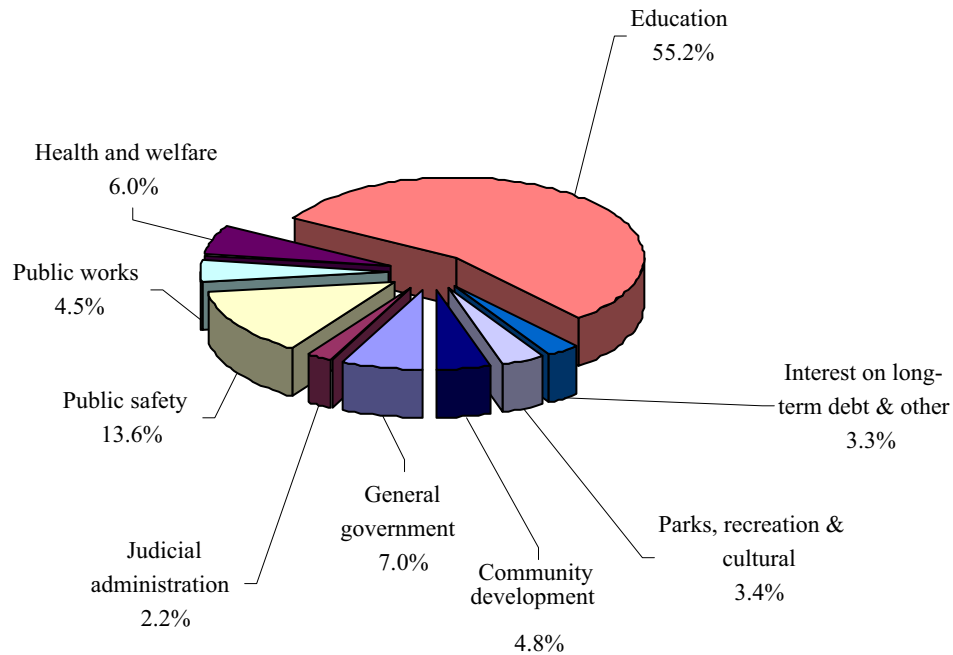


Table 3 illustrates the net cost (total expenses less fees generated by the activities and program-specific governmental aid) for the County's governmental activities.

<b>Table 3</b> <b>Net Cost of Governmental Activities</b> <b>For the Fiscal Year Ended June 30, 2005</b> <b>(\$ in millions)</b>					
	Total Cost of Services		Net Cost of Services		
	2005	2004	2005	2004	
General government	\$ 8.3	\$ 8.1	\$ 7.9	\$ 7.7	
Judicial administration	2.6	2.6	0.4	0.7	
Public safety	16.0	13.8	12.3	9.7	
Public works	5.3	8.6	5.3	8.3	
Health & welfare	7.1	6.5	2.5	2.6	
Education	65.3	59.1	65.3	59.1	
Parks, recreation and culture	4.0	4.6	3.3	3.2	
Community development	5.7	4.6	4.7	2.8	
Interest on long-term debt & other	3.9	3.4	3.9	3.4	
<b>Total</b>	<b>\$ 118.2</b>	<b>\$ 110.8</b>	<b>\$ 105.6</b>	<b>\$ 97.5</b>	

As Table 3 demonstrates, governmental activities generate revenue that helps offset the cost of these services. Program revenues generated include charges for services, and program grants. The County generates charges

for services primarily from fees for certain court services, public safety fees, community development services, library fees and parks & recreation activities. The County obtains grants primarily for public safety, health & welfare, and judicial administration. After recognizing the revenue from these fees, grants, and contributions, the net cost of governmental activities was \$105.6 million, compared to a total cost of \$118.2. General revenue, primarily in the form of taxes, and State aid are needed to support the services that are not fee supported.

**Business-type activities:** Table 2 also summarizes the business-type activities. These activities increased the County's net assets by \$5.0 million, accounting for 49.0% of the total increase in net assets of the County. Revenues totaled \$13.1 million of which \$8.3 million, or 63.4%, was generated by user fees or charges for services. Business-type activities are generally intended to be self-supporting. Fees are established to recover the cost of providing the service.

The total expenses for business-type activities were \$8.1 million, of which 97.5% was associated with the landfill & recycling program. Business-type activity expenses increased \$1.8 million over fiscal year 2004, primarily due to a \$2.8 million increase in closure and post closure costs as compared to the \$1.0 increase in 2004 for the landfill.

**Component unit activities:** Table 2 also summarizes the activities of the Schools. Revenues of \$104.7 million and expenses of \$102.2 million resulted in an increase in net assets of \$2.5 million. The County's contribution of \$65.3 million was the most significant revenue source, accounting for 62.4% of Schools funding. State aid also contributed an additional \$31.7 million, or 30.3% of the total revenue.

## **FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

As of June 30, 2005, the County's governmental funds reported a combined ending fund balance of \$55 million (Exhibit 3), a decrease of \$7.1 million in comparison with the prior year. The decrease is primarily attributed to the outlay for capital projects. Approximately 27.3%, or \$15.0 million, is available for spending at the government's discretion (unreserved/undesignated fund balance). The remaining fund balance is reserved or designated for encumbrances of \$3.1 million; grants, special projects and future years' expenditures of \$5.9 and capital projects of \$31.0.

The General Fund is the main operating fund of the County. At the end of the current fiscal year, the General Fund had an unreserved fund balance of \$12.7 million (Exhibit 3). The General Fund's liquidity can be measured by comparing unreserved fund balance to total fund revenues. Unreserved fund balance represents 11.0% of total revenues in the General Fund. Effective fiscal year 2003, the Board of Supervisors adopted a resolution setting a minimum fund balance target for the General Fund of 10% of General Fund revenue. Unless the Board of Supervisors determines to retain fund balance in the General Fund above the minimum target, amounts in excess of the target will be transferred to the construction reserve account in the Capital Projects Fund for future capital needs. For the fiscal year, the fund balance in the General Fund decreased by 14.9% (\$3,353,238), which reflects an additional \$2.7 million in transfers to the CIP in 2005 over the 2004 transfers.

Significant outlays in fiscal year 2005 included the following:

- The General Fund contributed \$65.3 million in operating funds to finance the Schools operations.
- The General Fund also incurred \$6.9 million in debt service for Schools construction projects funded with bond proceeds from the issuance of general obligation bonds.
- The County incurred \$0.9 million in debt service for County projects such as the public radio system and the lease/purchase of the library building in Bealeton.



- The General Fund transferred \$8.8 million to the Capital Projects Fund to fund capital improvement projects for the County.

## **BUDGETARY HIGHLIGHTS**

### **General Fund**

Table 4 provides a comparison of original budget, final amended budget, and actual revenues and expenditures in the General Fund.

<b>Table 4</b> <b>Budgetary Comparison</b> <b>General Fund</b> <b>For the Fiscal Year Ended June 30, 2005</b> <b>(\$ in millions)</b>			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
<u>Revenues</u>			
Taxes	\$ 87.1	\$ 87.2	\$ 90.0
Other	2.7	2.8	2.9
Intergovernmental	22.6	23.6	22.9
Total	<u>112.4</u>	<u>113.6</u>	<u>115.8</u>
<u>Expenditures</u>			
Expenditures	<u>111.7</u>	<u>116.0</u>	<u>110.1</u>
Excess (deficiency) of revenues over expenditures	<u>0.7</u>	<u>(2.4)</u>	<u>5.7</u>
<u>Other financing sources (uses)</u>			
Transfers	<u>(0.7)</u>	<u>(7.8)</u>	<u>(9.0)</u>
Change in fund balance	<u>\$ -</u>	<u>\$ (10.2)</u>	<u>\$ (3.3)</u>

During the year, budget amendments approved by the Board of Supervisors could be classified in the following key categories:

- Amendments for operating and capital projects that were incomplete in the prior fiscal year, and subsequently reappropriated in the new fiscal year.
- Amendments for supplemental appropriation for new projects, and/or change orders for prior approved projects.
- Amendments for transfers and adjustments to support revised priorities and account code restructuring.

Final amended budget revenues exceeded the original budget by \$1.2 million, primarily due to budget increases in Commonwealth of Virginia and Federal revenues. The budget for State and Federal aid was amended by \$1.0 million, primarily for expected revenue increases in welfare assistance.

Actual revenues and “transfers in” exceeded the amended budget by \$2.2 million. Tax collections accounted for \$2.8 million of the favorable variance offset by actual intergovernmental revenues collections being less than the amended budget by \$0.7.

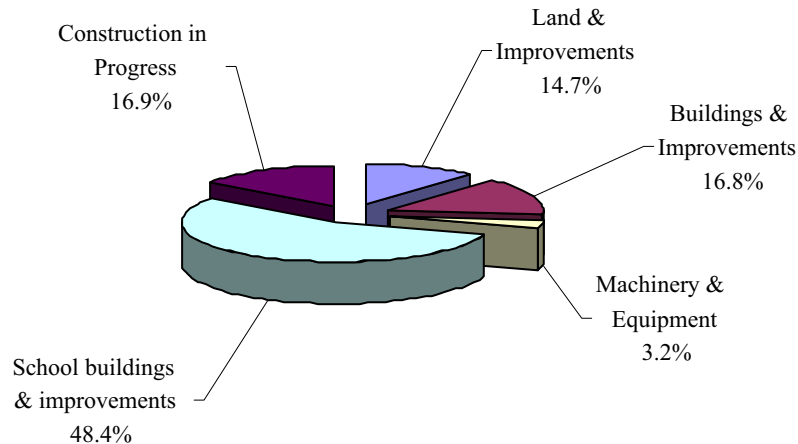
## CAPITAL ASSETS AND LONG-TERM DEBT

Table 5 provides information on changes in the capital assets of the governmental funds during fiscal year 2005.

\* School Board capital assets are jointly owned by the County and the component unit School Board. The County maintains ownership of the capital asset until any debt owed on the asset is paid in full. The County reports depreciation expense on these assets until such time as the debt is paid, and the asset is transferred to the component unit, Schools.

- 12 -

**Net Capital Assets Used in the Operation of Governmental Funds  
As of June 30, 2005**



The County's Capital Improvements Program Committee (Committee), composed of citizens appointed by the Board of Supervisors by magisterial district, receives the five-year requests from departments, agencies, and the component unit, Schools. The projects are evaluated, and the Committee prepares a recommended ten-year program, which is then sent for action by the Planning Commission and the Board of Supervisors. The County has adopted a resolution requiring a voter referendum for projects in which the total costs are \$10.0 million or more.

This year's major capital asset additions for the governmental activities include the following:

- Addition to construction in progress for the addition to the Adult Detention Center of \$2.0 million. The project was substantially completed at fiscal year end.
- Addition to construction in progress for the renovation of the Courthouse of \$2.8 million.
- Completion in 2005 of \$1.4 million of the total \$14.5 million Auburn Middle School which opened in August 2004.
- Addition to construction in progress of \$1.8 million for site work related to the third high school
- Addition to construction in progress of \$0.8 million for architect and engineering costs related to the Thomson Elementary School.
- Airport construction of \$4.1 million for expansion of the runways.
- The addition of 13 new sheriff vehicles in the amount of \$327,530.
- The addition of 20 school buses in the amount of \$1,113,750.

- The addition to construction in progress for an emergency radio system and towers in the amount of \$2.4 million. The project was substantially completed at fiscal year end.

The County's fiscal year 2006 Capital Improvements Program calls for the following major projects:

- \$19.8 million for the first phase of the \$50.6 million third high school.
- \$2.7 million for the Cedar Lee Middle School Library Expansion to construct a new library to replace the current undersized facility.
- \$0.4 million for infrastructure (roads, parking and utilities) for the Central Sports Complex
- \$0.4 million for upgrading the Vint Hill Village Green facility to include a new ball field and approximately 120 parking spaces.
- \$0.2 million for the design work for the estimated \$5.9 million New Baltimore Branch Library.

More details on the capital assets are provided in Note 8, Notes to Financial Statements section of this report.

### Long-term Debt

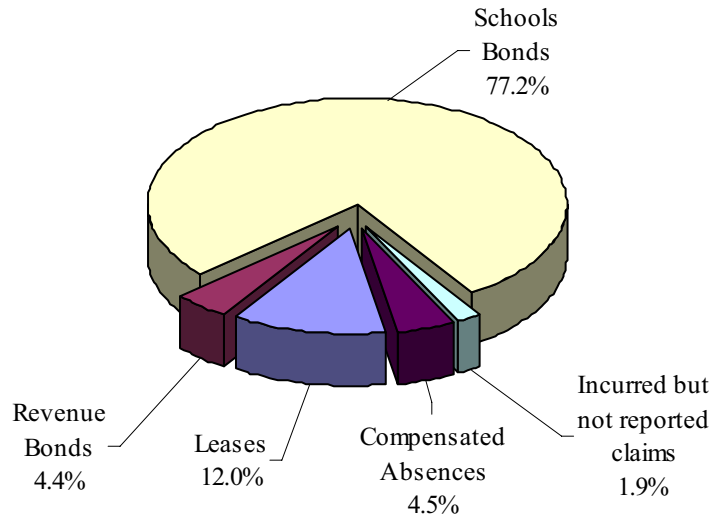
Table 6 provides an overview of the long-term obligations for the primary government.

<b>Table 6</b>				
<b>Summary of Changes in Long-Term Debt</b>				
<b>(\$ in millions)</b>				
	<b>July 1, 2004</b>	<b>Net Increase (Decrease)</b>	<b>June 30, 2005</b>	
<b>Governmental Activities:</b>				
Capital leases	\$ 8.2	\$ (0.5)	\$ 7.7	
Revenue bonds	3.0	(0.2)	2.8	
General obligation bonds plus premiums	49.8	(0.3)	49.5	
Compensated absences	2.5	0.4	2.9	
Incurring but not reported claims	1.2	-	1.2	
<b>Total long-term debt</b>	<b>\$ 64.7</b>	<b>\$ (0.6)</b>	<b>\$ 64.1</b>	
<b>Business Type Activities:</b>				
Revenue bonds plus premiums	2.2	(0.3)	1.9	
Compensated absences	0.1	-	0.1	
Landfill closure and postclosure	4.5	2.8	7.3	
<b>Total long-term debt</b>	<b>6.8</b>	<b>\$ 2.5</b>	<b>\$ 9.3</b>	

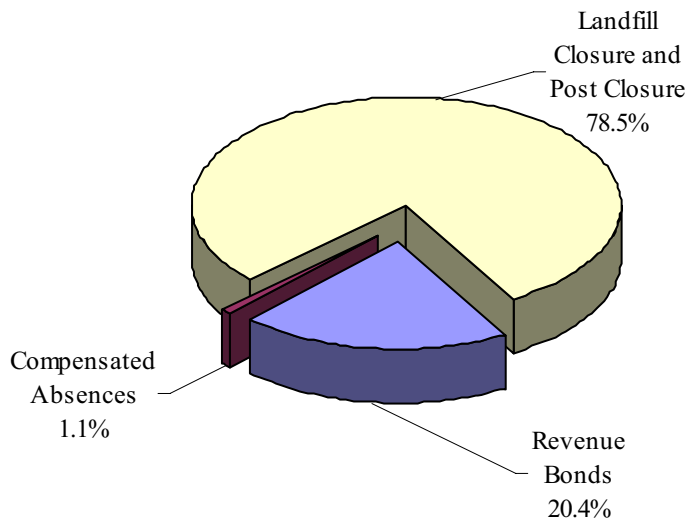
As of June 30, 2005, the County's long-term debt, excluding compensated absences and incurred but not reported claims, totaled \$60.1 million. During the year, the County issued Virginia Public School Authority bonds in the amount of \$3.7 million to fund modifications to the Liberty High School heating, ventilation and air conditioning system.

The charts below illustrate long-term debt by type and the percentage of each type relative to the total outstanding debt. Schools General Obligation Bonds represent the largest category of debt with 77.2% of the County's total governmental debt.

**Governmental Activities  
Long-Term Debt  
As of June 30, 2005**



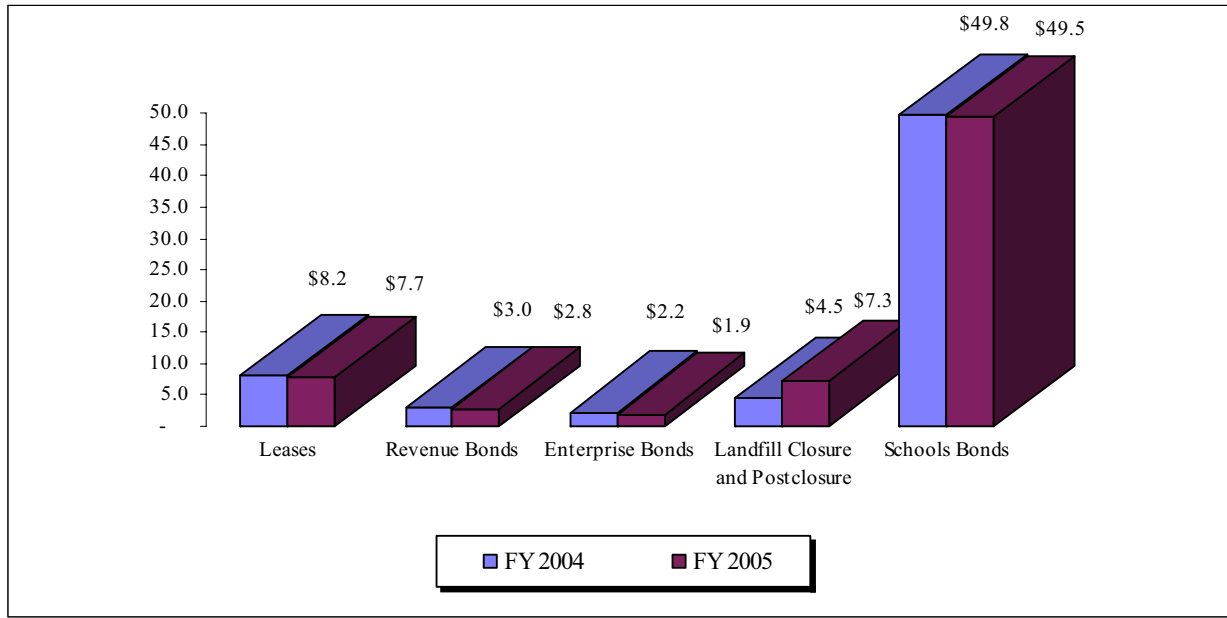
**Business Type Activities  
Long-Term Debt  
As of June 30, 2005**



The following chart compares long-term indebtedness, less compensated absences and less incurred but not recorded claims for fiscal year 2004 and 2005 by type and amount outstanding. As shown, lease obligations, revenue bonds and enterprise bonds decreased while landfill closure and postclosure debt and school-related debt obligations increased. In 2005 a comprehensive engineering reassessment resulted in increased estimates

of the closure and postclosure liabilities compounded by a 14.0% increase in usage of the initial landfill reducing the available capacity to 9.4%. The second landfill's available capacity decreased from 79.7% to 73.5%

### Long-Term Indebtedness by Obligation Type (\$ in millions)



The County does not have a legal limit on the amount of general obligation bonded indebtedness that it can incur or have outstanding. However, by State law general obligation indebtedness must be approved by voter referendum prior to issuance except for debt incurred from the State Literary Fund or the Virginia Public School Authority. The County has participated in the Virginia Public School Authority's bond sales for the past several years. The proceeds of these bonds are used exclusively to fund school capital projects.

The County has adopted two debt ratios as a management tool. The first ratio adopted limits annual general government debt service to no more than 10% of General Fund revenues. In fiscal year 2005, the County's debt to revenue ratio was 6.8%. The second ratio adopted is total debt per capita. This ratio compares current performance to past performance. In fiscal year 2005, the general government debt per capita was \$976. This ratio decreased from \$998 in the prior year.

In September 2005 (fiscal year 2006), the County approved participation in the Virginia Public School Authority General Obligation Bond sale to fund the Claude Thompson Elementary School renovation, additional funding for the Liberty High School heating, ventilating, and air conditioning project, and Cedar Lee Middle School Library Expansion with general obligation debt.

In making debt issuance decisions, the County uses the following practices:

- The County will not fund current or ongoing operations from debt proceeds.
- The County's Capital Improvements planning process includes both a pay-as-you-go element (cash funded) and a debt element for the addition of capital assets.

- The County will repay long-term debt over a period that does not exceed the expected useful life of the capital assets being financed.
- The County will comply with finance industry standards for disclosure related to debt offerings.
- The County has set a debt service limit to no more than 10% of General Fund revenues.
- The County uses a debt per capita ratio as a management tool in evaluating debt capacity, comparing the County to a peer group and to historical performance.

More detailed information on the County's long-term obligations is presented in Note 9, Notes to Financial Statements section of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

### **Economic Factors**

- The average unemployment rate for the County of Fauquier in June 2005 was 2.5%, an increase of 0.3% from June 2004. This compares favorably to the State's rate of 3.5% and the national rate of 5.3%. The September 2005 unemployment rate for the County was 2.4% compared to the State's rate of 3.5% and the national rate of 4.8%.
- According to the Weldon Cooper Center for Public Service, Fauquier County's population was estimated to be 61,500 as of the beginning of fiscal year 2005 (July 1, 2004), an increase of 1.8% over the prior year. Population estimates for the last ten years are provided in Table 11, Statistical Section of this report.
- The enrollment in public schools increased in fiscal year 2005 by 3.2% from 10,414 to 10,752. School enrollment for the last ten years is provided in Table 11, Statistical Section of this report.
- The 2003 per capita personal income for Fauquier County was \$41,207, compared to \$33,993 for the Commonwealth of Virginia, as reported by the U.S. Department of Commerce Bureau of Economic Analysis.

### **Fiscal Year 2006 Budget and Rates**

- For fiscal year 2006, the adopted budget for the General Fund is \$121.8 million, an increase of 8.4% over fiscal year 2005. Revenues are comprised primarily of general property taxes at 62.6%, other local taxes at 13.1%, permits, privilege fees and regulatory licenses at 2.1%. State assistance at 18.1%, Federal assistance at 1.7%, use of money at 1% and other revenues of 1.4%.
- In fiscal year 2006, the County's transfer to the component unit, Schools, increased by 5.7% to \$72.7 million which includes the County's payment of debt service on behalf of the Schools. Support to the Schools represents 59.7% of the General Fund appropriations not including the allocation of shared services, which represents an additional \$5.4 million of local support. The percentage of General Fund appropriations supporting Schools is basically unchanged from fiscal year 2005.
- For fiscal year 2006 the County and Schools continued a revenue sharing program, begun in fiscal year 2004, in which the Schools maintained its base contribution from the prior fiscal year and received 60% of any new, non-dedicated revenue in the budget year.
- Public safety is second, accounting for 10.1% of budgeted expenditures. Public safety volunteers also have a dedicated real property tax of \$0.25 per \$100 of assessed value. This tax supports County and volunteer fire and rescue operations. For fiscal year 2006 support for County fire and rescue operations was shifted from the separate fire and rescue fund to the general fund.

- Tax rates for real and personal property remained unchanged. Detail on the tax rates is provided in Table 7, Statistical Section of this report.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Fauquier County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Vivian McGettigan, Director of Finance, County of Fauquier, 320 Hospital Drive, Suite 32, Warrenton, Virginia 20186, telephone (540) 428-8726, or visit the County's web site at [www.fauquiercounty.gov](http://www.fauquiercounty.gov).